

**CITY OF ANNA, TEXAS**  
**ANNUAL FINANCIAL REPORT**  
**FOR THE YEAR ENDED**  
**SEPTEMBER 30, 2012**

**CITY OF ANNA, TEXAS  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED SEPTEMBER 30, 2012**

Table of Contents

	<u>Page</u>
<b>FINANCIAL SECTION</b>	
Independent Auditor's Report.....	1-2
<u>Required Supplementary Information:</u>	
Management's Discussion and Analysis.....	3-8
<u>Basic Financial Statements</u>	
<u>Government-wide Financial Statements</u>	
Statement of Net Assets.....	9-10
Statement of Activities.....	11
<u>Fund Financial Statements</u>	
Fund Balance Sheets – Governmental Funds.....	12
Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds.....	14
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	15
Statement of Net Assets – Proprietary Fund.....	16
Statement of Revenues, Expenses and Changes in Fund Net Assets – Proprietary Fund.....	17
Statement of Cash Flows – Proprietary Fund.....	18
Notes to Basic Financial Statements.....	19-34
<u>Required Supplementary Information:</u>	
Budgetary Comparison Schedule – General Fund.....	35
Pension Funding Data.....	36-38
<b>COMPLIANCE AND INTERNAL CONTROLS SECTION</b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> .....	39-40

## FINANCIAL SECTION



## INDEPENDENT AUDITOR'S REPORT

To the City Council of the  
City of Anna, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna, Texas (the City), as of and for the year ended September 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activity, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Anna as of September 30, 2012, and the changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have issued a report dated March 26, 2013 on our consideration of the City's internal control over financial reporting and our tests of compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 and page 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. The retirement system funding information on pages 36 through 38 is also not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*LaFollett and Company PLLC*

LaFollett & Company, PLLC  
Tom Bean, Texas  
March 26, 2013

## CITY OF ANNA MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of City of Anna's (the City) financial performance provides an overview of the City's financial activities for the fiscal year ended September 30, 2012. Please read it in conjunction with the City's financial statements, which begin on page 9.

### FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of FY12 by \$30,159,750. This is an increase of \$48,099 over FY11's net asset value of \$30,111,652. Unrestricted net assets at the close of FY12 are \$3,571,740 and may be used to meet the City's ongoing obligations to citizens and creditors. This is a decrease of \$417,020 from FY11's unrestricted net asset value of \$3,988,760.
- Although the City's total net assets increase of \$48,099 is much lower than FY11's \$1,501,346 increase, FY11's result included non-recurring, capital contributions totaling \$1,874,902.
- The City's governmental funds reported on page 12 have an ending fund balance of \$2,733,904, which is an increase of \$112,094 in comparison with FY11 ending fund balances of \$2,621,810. \$2,178,670 of the fund balance is classified as "unassigned" and available for spending at the City's discretion and in compliance with the City's financial policies.

### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The government-wide financial statements include the Statement of Net Assets and the Statement of Activities (on pages 9-11). These provide information about the activities of the City as a whole and present a long-term view of the City's financial condition. They reflect the flow of total economic resources in a manner similar to the financial reports of a business enterprise.

Fund financial statements (starting on page 12) report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. Governmental fund statements tell how services were financed in short-term, as well as what resources remain for future spending. They reflect the flow of current financial resources, and supply the basis for funding requests and the appropriations from the State. Proprietary fund financial statements report activity for the City's water, sewer, and sanitation operations.

The notes to the financial statements (starting on page 19) provide narrative explanations or additional data needed for full disclosures for the government-wide statements and the fund financial statements.

### Reporting the City as a Whole – Government-Wide Financial Statements

#### **The Statement of Net Assets and the Statement of Activities**

Government-wide financial statements, which provide an analysis of the City's overall financial condition and operation, begin on page 9. The primary objective of these statements is to show whether the City's financial condition has improved or deteriorated as a result of the year's activities.

The statement of Net Assets includes all the City's assets and liabilities (including long-term items) while the Statement of Activities includes all the revenue and expenses generated by the City's operations during the year. Government-wide statements utilize the accrual basis of accounting, which is the same method used by most private sector companies.

All of the current year's revenue and expenses are taken into account regardless of when cash is received or paid. The City's revenue is divided into the following categories: 1) charges for services, 2) operating grants and contributions, 3) capital grants and contributions, 4) general revenues not associated with any specific program function. All of the City's assets are reported whether they serve the current or future years. Liabilities are also reported regardless of whether they must be paid in the current or future years.

These two statements report the City's net assets and changes in them. The City's net assets (the difference between assets and liabilities) provide one measure of the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. To fully assess the overall health of the City, you should consider non-financial factors as well, such as changes in the City's request for services from citizens and the condition of the City's facilities.

In the Statement of Net Assets and the Statement of Activities, the City has two kinds of activities:

**Governmental Type Activities** – City services such as police and fire protection, street maintenance, parks, and city administration are reported here. City property taxes finance most of these activities.

**Business-Type Activities** - The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The services are supported by monthly charges to citizens.

### **Reporting the City's Most Significant Funds**

#### **Fund Financial Statements**

The fund financial statements begin on page 12 and provide detailed information about the most significant funds. The City's two kinds of funds-governmental and proprietary – use different accounting approaches.

**Governmental Funds** – The City reports most of its basic services in governmental funds. Governmental funds use the modified accrual basis of accounting (a method that measures the receipt and disbursement of cash and other financial assets that can be readily converted to cash) and they report balances that are available for future spending. Governmental fund statements provide a detailed short-term view of the City's general operations and the basic services it provides. We describe the accounting differences between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in reconciliation schedules found on pages 13 and 15.

**Proprietary Funds** – The City uses proprietary (business-type) funds to account for its water, sewer, and sanitation operations. The full-accrual basis of accounting is used for all proprietary type funds.

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Seventy-four percent (74%) of the City's net assets are invested in capital assets; land, buildings, vehicles and electronic equipment, less any outstanding debt used to acquire these assets. The City uses capital assets to provide services to the citizens they serve; consequently, these assets are not available for future spending.

The following tables summarize the Statement of Net Assets and Changes in Net Assets for the year ended September 30, 2012:

	Governmental Activities		Business-type Activities		Total	
	FY12	FY11	FY12	FY11	FY12	FY11
Current and other assets	\$ 3,236,822	\$ 3,101,078	\$ 6,758,629	\$ 5,811,315	\$ 9,995,451	\$ 8,912,393
Capital assets	15,296,793	16,026,492	30,778,837	31,234,383	46,075,630	47,260,875
Total assets	18,533,615	19,127,570	37,537,466	37,045,698	56,071,081	56,173,268
Long-term liabilities outstanding	4,634,424	4,944,345	19,194,300	19,577,132	23,828,724	24,521,477
Other liabilities	367,020	341,955	1,715,587	1,198,184	2,082,607	1,540,139
Total liabilities	5,001,444	5,286,300	20,909,887	20,775,316	25,911,331	26,061,616
Net assets:						
Invested in capital assets, net of related debt	10,749,210	11,048,398	11,584,537	11,657,252	22,333,747	22,705,650
Restricted	444,340	156,274	3,809,923	3,260,968	4,254,263	3,417,242
Unrestricted	2,338,621	2,636,598	1,233,119	1,352,162	3,571,740	3,988,760
Total net assets	\$ 13,532,171	\$ 13,841,270	\$ 16,627,579	\$ 16,270,382	\$ 30,159,750	\$ 30,111,652

	Governmental Activities		Business-type Activities		Total	
	FY12	FY11	FY12	FY11	FY12	FY11
Revenues:						
Program Revenues:						
Charges for services	\$ 921,352	\$ 471,048	\$ 4,880,931	\$ 4,329,000	\$ 5,802,283	\$ 4,800,048
Operating grants and contributions	76,729	52,548	-	-	76,729	52,548
Capital grants and contributions	382,003	648,296	-	1,233,569	382,003	1,881,865
General Revenues:						
Property taxes	2,392,504	2,418,445	-	-	2,392,504	2,418,445
Other taxes and franchise fees	886,810	871,480	-	-	886,810	871,480
Other	191,700	162,002	404,350	236,935	596,050	398,937
	4,851,098	4,623,819	5,285,281	5,799,504	10,136,379	10,423,323
Expenses:						
General government	965,092	899,628	-	-	965,092	899,628
Parks	290,907	264,779	-	-	290,907	264,779
Public safety	1,924,035	1,882,199	-	-	1,924,035	1,882,199
Streets	888,763	853,980	-	-	888,763	853,980
Debt service - interest	196,169	208,551	-	-	196,169	208,551
Development/Inspections	530,649	412,775	-	-	530,649	412,775
Water/Sewer/Sanitation	-	-	4,928,084	4,400,065	4,928,084	4,400,065
	4,795,615	4,521,912	4,928,084	4,400,065	9,723,699	8,921,977
Excess (deficiency) of revenues over expenditures before transfers	55,483	101,907	357,197	1,399,439	412,680	1,501,346
Transfers In (Out)	(364,582)	(59,138)	-	59,138	(364,582)	-
Increase in net assets	(309,099)	42,769	357,197	1,458,577	48,098	1,501,346
Net assets - October 1 (beginning)	13,841,270	13,798,501	16,270,382	14,811,805	30,111,652	28,610,306
Net assets - September 30 (ending)	\$ 13,532,171	\$ 13,841,270	\$ 16,627,579	\$ 16,270,382	\$ 30,159,750	\$ 30,111,652



## **FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

Net assets of the City's governmental activities decreased from \$13,841,270 to \$13,532,171. Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements is \$2,338,621 for governmental activities.

## **FINANCIAL ANALYSIS OF THE CITY'S FUNDS**

The City's governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$2,733,904 compared to \$2,621,810 in FY11. This represents an increase of \$112,094. The City has capital projects and debt service funds to properly account for governmental asset construction and repayment of borrowed funds.

Revenues and other financing sources for the City's general fund were \$4,090,066, while total expenses and other financing uses were \$3,750,305. This resulted in an excess of revenues over expenditures of \$339,761 from current operations (see page 14). Last year's result was an excess of revenues over expenditures of \$42,771. The largest increase in FY12 general fund revenues came from development fees, impact fees, and building permits. The largest increase in FY12 general fund expenditures was also in the development department because contractual costs increase along with increased development activity.

Revenues for the City's Utility Fund were \$4,920,699, while total expenses were \$4,928,084. This resulted in a loss before transfers of \$7,385 (see page 17). This is a worse result than 2011's income before contributions and transfers of \$165,880. The main reason for the loss was a \$403,953 increase in operating expenses and \$124,066 increase in interest expense.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's investment in capital assets for all activities as of September 30, 2012 amounts to \$46,075,630 compared to \$47,260,878 (net of accumulated depreciation) at September 30, 2011. This investment in capital assets includes land, buildings and improvements, street improvements, parks, water and sewer systems, equipment and vehicles. The net decrease in the City's investment in capital assets for the current fiscal year was \$1,185,248. Major capital asset purchases during 2012 related to the on-going improvements to the water system, streets, drainage, and other improvements.

### **Long-term Debt**

At year-end, the City had total notes, capital leases, bonds and contractual obligations outstanding of \$23,700,821. The City issued no new debt during 2012. The City made all required bond, capital lease, note, and contractual obligation principal payments for 2012 which totaled \$732,771.

At the end of FY12, the City's total long-term commitments for governmental activities were \$4,634,424 and total long-term commitments for the Utility Fund are \$19,194,299. Total long-term commitments for the City decreased by \$711,045 from 2011 to 2012.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

According to the most recent population estimates published by the North Central Texas Council of Governments, the City of Anna has grown by 600% since the year 2000. Since 2008, the growth of the national and local economy has slowed significantly. Uncertainty surrounding employment, housing prices, and our national economy has had a significant effect on our local economy here in Anna.

The most dramatic impact of this economic uncertainty can be observed in the recent multi-year decline in local property values. This decline in property values has a direct and significant impact on our ability to fund the programs and infrastructure that we have invested so heavily in over the past decade. Over 60% of our General Fund revenue is derived from property taxes, and, with the exception of the most recent year, the taxable value of existing properties has declined an average of over 3% per year since 2008. This equates to a loss of over \$42 million in taxable value based on a year to year comparison. Even with over \$35 million in new buildings and property added to the tax roll since 2008, the taxable value of the 2012 tax roll is nearly 2% lower than the 2008 roll. In addition, the average value of a residential homestead in Anna has declined by 11% since 2008.

Based on the most recent 2012 property appraisals, it appears that existing properties have retained their value since 2011, and we are guardedly optimistic that this could mark the beginning of a trend toward market appreciation. In addition we have observed a significant increase in the number of single family home building permits issued since the beginning of 2012. While this will most certainly add to the city's tax base, it will also increase the demand for municipal services that are funded primarily by property taxes.

In order to fund the FY 2013 budget, the city adopted a tax rate of \$0.650332 per \$100 valuation which is identical to the tax rate adopted in FY 2012 and slightly greater than the effective tax rate of \$0.646813. Because of a modest increase in property values (primarily commercial), the effective tax rate is slightly less than the FY 2013 tax rate of \$0.650332 per \$100 valuation. With the adopted tax rate of \$0.650332, the owner of the average residential homestead in Anna will pay \$728.36 in property taxes this year which is \$0.01 less than the FY 2012 tax levy. When compared with other cities in our area, the City of Anna has one of the lowest per-capita and average residential homestead property tax burdens.

In order to accommodate existing and projected growth, the city invested about \$20 million over the last decade to upgrade the water and sewer system. Up until three years ago, the city was able to pay about two-thirds of the outstanding water and sewer debt with impact fees that are paid by a home builder when a new home is constructed. As residential construction declined, the resulting revenue from impact fees fell dramatically. On October 1, 2011, the base rate for residential water customers increased from \$18 to \$22 per month and the base rate for residential sewer customers increased from \$18 to \$22 per month. On January 1, 2012, an additional customer charge of \$0.15 per 1000 gallons of water used was adopted to pay for the water production fees now being charged by the North Texas Groundwater Conservation District. While no additional rate increases occurred in FY 2012, it is anticipated a rate increase will be necessary in late 2013 as part of the FY 2014 budget.

With the increase in growth the City experienced throughout 2012 and the expectation that growth will continue into 2013 and beyond, the City issued new debt to finance water and sewer infrastructure improvements necessary to accommodate our growing community. The City continues to actively review its existing water and sewer rates. This evaluation is necessary to ensure that the City is able to meet its outstanding debt obligations and prepare for future capital improvements that will be necessary to maintain utility service to our community. In addition to reviewing our water and sewer rates, the city is actively managing its outstanding debt. We have a series of planned debt refundings that will allow us to take advantage of low rates and develop a more level and modest repayment structure.

Although the city has some challenges, there are many positive things happening in our community. The City continues to see consistent increases in the amount of sales tax revenue collected each year, which is a testament to the health of our local business climate. The sales tax revenue in FY 2012 was up 14% over the net FY 2011 revenue which was up 6% over FY 2010. While we do not expect dramatic increases to continue, we do not anticipate a decrease in sales tax revenue in FY 13.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact City Hall, at 111 North Powell Parkway, P.O. Box 776, Anna, Texas 75409-0776 or (972) 924-3325.

**City of Anna, Texas**  
**Statement of Net Assets**  
**September 30, 2012**

	Primary Government		Component Units	
	Governmental Activities	Business-type Activities	Economic Develop Corporation	Community Develop Corporation
<b>Assets</b>				
Cash and cash equivalents	\$ 2,332,697	\$ 2,088,143	\$ 304,878	\$ 222,520
Pooled investments	366,599	140,185	-	-
Receivables - net	266,281	415,149	46,725	46,725
Inventory	-	49,828	-	-
Internal balances	184,080	(184,080)	-	-
Due from component units	324	-	-	-
Prepaid bond issue costs	86,841	377,587	-	6,650
Restricted assets:				
Deposits held by GTUA	-	2,048,323	-	-
Other restricted cash	-	1,621,415	-	1,666,017
Receivables - long-term	-	-	-	99,900
Non-depreciable capital assets:				
Land and easements	1,258,437	362,913	506,090	-
Construction in progress	86,768	507,719	-	-
Depreciable capital assets (net):				
Water and sewer systems	-	29,473,264	-	-
Buildings, machinery, and equipment	1,731,223	434,941	365,062	-
Park improvements	2,372,268	-	-	-
Streets and other infrastructure	9,848,097	-	-	-
<b>Total assets</b>	<u>\$ 18,533,615</u>	<u>\$ 37,335,387</u>	<u>\$ 1,222,755</u>	<u>\$ 2,041,812</u>

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Statement of Net Assets**  
**September 30, 2012**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	Economic Develop Corporation	Community Develop Corporation
<b>Liabilities</b>					
Accounts payable	\$ 216,465	\$ 188,783	\$ 405,248	\$ -	\$ -
Interest payable	24,391	768,138	792,529	-	7,479
Accrued liabilities	126,164	26,373	152,537	-	-
Due to primary government	-	-	-	86	238
Customer meter deposits	-	530,214	530,214	-	-
<b>Non-current liabilities:</b>					
Due within one year	395,309	468,303	863,612	63,448	78,000
Due in more than one year	4,239,115	18,725,997	22,965,112	528,733	1,973,000
<b>Total liabilities</b>	<b>5,001,444</b>	<b>20,707,808</b>	<b>25,709,252</b>	<b>592,267</b>	<b>2,058,717</b>
<b>Net Assets</b>					
Invested in capital assets, net of related debt	10,749,210	11,584,537	22,333,747	278,971	-
Restricted for:					
GTUA deposits	-	2,048,323	2,048,323	-	-
Water and sewer improvements	-	1,761,600	1,761,600	-	-
Capital projects and other	444,340	-	444,340	-	-
Unrestricted	2,338,621	1,233,119	3,571,740	351,517	(16,905)
<b>Total net assets</b>	<b>\$ 13,532,171</b>	<b>\$ 16,627,579</b>	<b>\$ 30,159,750</b>	<b>\$ 630,488</b>	<b>\$ (16,905)</b>

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Statement of Activities**  
**For the Year Ended September 30, 2012**

Functions/Programs	Program Revenues					Net (Expense) Revenue and Changes in Net Assets				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government					Component Units
					Governmental Activities	Business-type Activities	Total	Economic Develop Corp.	Community Develop Corp.	
<b>Primary government:</b>										
Governmental activities:										
Development and inspections	\$ 530,649	\$ 743,906	\$ -	\$ -	\$ 213,257	\$ -	\$ 213,257	\$ -	\$ -	-
Highways and streets	888,763	-	-	-	(888,763)	-	(888,763)	-	-	-
General government	965,092	-	-	-	(965,092)	-	(965,092)	-	-	-
Police	1,282,005	18,265	76,729	-	(1,187,011)	-	(1,187,011)	-	-	-
Fire	445,193	50,935	-	14,918	(379,340)	-	(379,340)	-	-	-
Court	82,055	97,951	-	-	15,896	-	15,896	-	-	-
Ambulance	114,782	-	-	-	(114,782)	-	(114,782)	-	-	-
Parks	290,907	10,295	-	367,085	86,473	-	86,473	-	-	-
Interest on long-term debt	196,169	-	-	-	(196,169)	-	(196,169)	-	-	-
Total governmental activities	4,795,615	921,352	76,729	382,003	(3,415,531)	-	(3,415,531)	-	-	-
<b>Business-type activities:</b>										
Water and Sewer - operating	4,928,084	4,880,931	-	-	-	(47,153)	(47,153)	-	-	-
Total business-type activities	4,928,084	4,880,931	-	-	-	(47,153)	(47,153)	-	-	-
Total primary government	9,723,699	5,802,283	76,729	382,003	(3,415,531)	(47,153)	(3,462,684)	-	-	-
<b>Component units:</b>										
Economic Development Corp.	143,496	-	-	-	-	-	-	(143,496)	-	-
Community Development Corp.	192,564	-	-	-	-	-	-	-	(192,564)	-
Total component units	\$ 336,060	-	-	-	-	-	-	(143,496)	(192,564)	-
<b>General revenues:</b>										
Property taxes		2,392,504	-	-	-	-	2,392,504	-	-	-
Sales taxes		522,840	-	-	-	-	522,840	261,420	261,420	-
Franchise taxes		363,970	-	-	-	-	363,970	-	-	-
Investment interest		25,939	-	-	34,450	-	60,389	3,396	224	-
Miscellaneous		35,522	-	-	-	-	35,522	12,193	-	-
Intergovernmental		126,900	-	-	-	-	126,900	-	-	-
Gain on sale of assets		3,339	-	-	5,318	-	8,657	-	-	-
Transfers in (out)		(364,582)	-	-	364,582	-	-	-	-	-
Total general revenues and transfers		3,106,432	-	-	404,350	-	3,510,782	277,009	261,644	-
Change in net assets		(309,099)	-	-	357,197	-	48,099	133,513	69,080	-
Net assets - beginning		13,841,270	-	-	16,270,382	-	30,111,652	496,975	(85,985)	-
Net assets - ending		\$ 13,532,171	-	-	\$ 16,627,579	-	\$ 30,159,750	\$ 630,488	\$ (16,905)	-

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Balance Sheet - Governmental Type Funds**  
**September 30, 2012**

	Governmental Fund Types			Total
	General	Capital Projects	Debt Service	Governmental Funds
<b>Assets</b>				
Current assets:				
Cash and cash equivalents	\$ 2,176,079	\$ 102,909	\$ 53,709	\$ 2,332,697
Pooled investments	366,599	-	-	366,599
Accounts receivable - net	256,347	-	9,934	266,281
Due from component units	324	-	-	324
Due from other funds	202,080	-	-	202,080
Total current assets	3,001,429	102,909	63,643	3,167,981
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	164,020	52,445	-	216,465
Accrued liabilities	126,164	-	-	126,164
Due to other funds	-	17,999	-	17,999
Deferred tax and court revenue	64,995	-	8,454	73,449
Total current liabilities	355,179	70,444	8,454	434,077
<b>Fund Balances</b>				
Restricted	356,686	32,465	55,189	444,340
Committed - Revenue stabilization	110,894	-	-	110,894
Unassigned	2,178,670	-	-	2,178,670
Total fund balances	2,646,250	32,465	55,189	2,733,904
Total liabilities and fund balances	\$ 3,001,429	\$ 102,909	\$ 63,643	\$ 3,167,981

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Statement of Net Assets**  
**For the Year Ended September 30, 2012**

Fund balances of governmental funds (page 12)	\$ 2,733,904
---	--------------

**Amounts reported for governmental activities in the statement of net assets**  
**(pages 9-10) are different because:**

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	15,296,792
---	------------

Accrued interest payable does not require the use of current financial resources and, therefore, are not reported in the governmental funds.	(24,391)
--	----------

Prepaid debt issuance costs are not financial resources and, therefore, are not reported in the funds.	86,841
--	--------

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.	(4,634,424)
--	-------------

Property taxes and court revenue not received at year-end are shown as deferred income on the fund financial statements, but the amount should not be shown as a liability on the statement of net assets.	73,449
--	--------

Net assets of governmental activities (page 10)	<u><u>\$ 13,532,171</u></u>
---	-----------------------------

The accompanying notes are an integral part of these financial statements.



**City of Anna, Texas**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds**  
**For the Year Ended September 30, 2012**

	Governmental Fund Types			Total Governmental
	General	Capital Projects	Debt Service	
Revenues				
Taxes:				
Property	\$ 2,058,963	\$ -	\$ 337,205	\$ 2,396,168
Sales	522,840	-	-	522,840
Franchise	363,970	-	-	363,970
Building permits	493,692	-	-	493,692
Grants	14,918	443,814	-	458,732
Developer and impact fees	204,580	-	-	204,580
Intergovernmental	126,900	-	-	126,900
Court	98,446	-	-	98,446
Fire	50,935	-	-	50,935
Other development fees	45,634	-	-	45,634
Other revenue	26,844	-	-	26,844
Investment earnings	22,799	1,995	1,145	25,939
Police	21,604	-	-	21,604
Parks	10,295	-	-	10,295
Total revenues	4,062,420	445,809	338,350	4,846,579
Expenditures				
Current:				
Police	1,165,543	-	-	1,165,543
Administrative and general	848,949	48,484	5,582	903,015
Development and animal control	529,080	-	-	529,080
Fire	388,871	-	-	388,871
Streets	163,518	-	-	163,518
Parks	116,883	-	-	116,883
Ambulance	114,782	-	-	114,782
Court	82,055	-	-	82,055
Capital outlays	273,255	109,113	-	382,368
Debt service:				
Principal retirement	45,632	-	282,282	327,914
Interest expense	21,737	-	182,815	204,552
Total expenditures	3,750,305	157,597	470,679	4,378,581
Excess of revenues over (under) expenditures	312,115	288,212	(132,329)	467,998
Other financing sources (uses)				
Insurance proceeds	8,678	-	-	8,678
Transfers in	18,968	58,025	136,760	213,753
Transfers (out)	-	(578,335)	-	(578,335)
Total other financing sources(uses)	27,646	(520,310)	136,760	(355,904)
Net changes in fund balances	339,761	(232,098)	4,431	112,094
Fund balances - beginning	2,306,489	264,563	50,758	2,621,810
Fund balances - ending	\$ 2,646,250	\$ 32,465	\$ 55,189	\$ 2,733,904

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**To the Statement of Activities**  
**For the Year Ended September 30, 2012**

**Amounts reported for governmental activities in the statement of activities (page 11) are different because:**

Net change in fund balances - total governmental funds (page 14)	\$ 112,094
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.	(729,701)
Non-cash capital contributions and other contributions not received within sixty days after year-end are not reported as income in the governmental funds.	-
The decrease in accrued interest is not a source of current financial resources and, therefore is not reported in the governmental funds.	8,383
Principal payments on long-term debt are an expenditure for the governmental funds, but this expenditure is removed for the government-wide financial statements.	327,914
The increase in accrued compensated absences does not use current financial resources and, therefore is not reported in the governmental funds.	(17,991)
Various other reclassifications and eliminations are necessary to convert from the modified accrual basis of accounting to accrual basis of accounting. These include recognizing the change in deferred revenue and various other items. The net effect of these reclassifications is to increase net assets.	(4,159)
Governmental funds report the costs of issuing new debt in the year for which it is incurred, but this cost is amortized over the life of the debt for the government-wide financial statements.	(5,639)
Change in net assets of governmental activities (page 11)	<u><u>(\$ 309,099)</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Statement of Net Assets - Proprietary Fund (Utility Fund)**  
**September 30, 2012**

<b>Assets</b>	<u><b>Utility Fund</b></u>
Current assets:	
Cash and cash equivalents	\$ 2,088,143
Accounts receivable - net	415,149
Inventory	49,828
Restricted pooled investments	140,185
Restricted cash for capital improvements	1,621,415
Deferred charges - prepaid bond issue costs	377,587
Due from other funds	17,999
Total current assets	<u>4,710,306</u>
Noncurrent assets:	
Restricted deposits held in trust with GTUA	2,048,323
Capital assets (non-depreciable):	
Land and easements	362,913
Construction in progress	507,719
Capital assets (net of depreciation):	
Plants, machinery, and equipment	29,908,205
Total capital assets	<u>30,778,837</u>
Total noncurrent assets	<u>32,827,160</u>
Total assets	<u><u>\$ 37,537,466</u></u>
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	\$ 188,783
Other liabilities	26,372
Bond interest payable	768,138
Due to General Fund	202,080
Customer deposits	530,214
Current portion of long-term debt	468,303
Total current liabilities	<u>2,183,890</u>
Noncurrent liabilities:	
Bonds and notes payable	<u>18,725,997</u>
Total liabilities	<u>20,909,887</u>
<b>Net Assets</b>	
Investment in capital assets, net of related debt	11,584,537
Restricted - GTUA deposits	2,048,323
Restricted - water and sewer improvements	1,761,600
Unrestricted	1,233,119
Total net assets	<u><u>\$ 16,627,579</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Statement of Revenues, Expenses, and Changes in**  
**Net Assets - Proprietary Fund (Utility Fund)**  
**For the Year Ended September 30, 2012**

	<u>2012</u>
Operating revenues:	
Water income	\$ 2,253,099
Sewer income	1,356,499
Sanitation income	585,428
Developer and impact fees	420,000
Connect, install, and tap fees	108,905
Water customer late fees	106,364
Groundwater production fees	27,690
Miscellaneous revenue	<u>22,946</u>
Total operating revenues	4,880,931
Operating expenses:	
Personnel and benefits	793,328
Sanitation contract	513,631
Utilities	403,631
Supplies, repairs, and maintenance	383,740
N. Texas Municipal Water District contract	331,880
Other contractual services	268,793
Other operating expenses	178,391
Bad debt	25,863
Depreciation	<u>1,100,421</u>
Total operating expenses	<u>3,999,678</u>
Operating income	881,253
Non-operating revenues (expenses):	
Interest expense	(906,241)
Bond amortization	(22,165)
Gain on sale of assets	5,318
Interest income	<u>34,450</u>
Total non-operating revenues (expenses)	<u>(888,638)</u>
Income before contributions and transfers	(7,385)
Transfers in	427,603
Transfers out	<u>(63,021)</u>
Changes in net assets	357,197
Total net assets - beginning	<u>16,270,382</u>
Total net assets - ending	<u><u>\$ 16,627,579</u></u>

The accompanying notes are an integral part of these financial statements.

**City of Anna, Texas**  
**Statement of Cash Flows - Proprietary Fund (Utility Fund)**  
**For the Year Ended September 30, 2012**

<b>Operating Activities:</b>	<b>2012</b>
Receipts from customers and users	\$ 4,861,543
Payments to suppliers	(2,156,887)
Payments to employees	(589,835)
Net cash provided (used) by operating activities	<u>2,114,821</u>
<b>Capital and Related Financing Activities:</b>	
Cash paid for acquisition and construction of capital assets	(224,420)
Interest paid on long-term debt	(765,609)
Principal payments on capital debt	(404,857)
Net cash provided (used) by capital and related financing activities	<u>(1,394,886)</u>
<b>Non-capital and Related Financing Activities</b>	
Net Transfers in (out) to/from other funds	(62,971)
Net cash provided (used) by non-capital and related financing activities	<u>(62,971)</u>
<b>Investing Activities:</b>	
Interest received	34,450
Net cash provided (used) by investing activities	<u>34,450</u>
Net increase (decrease) in cash and cash equivalents	691,414
Cash and cash equivalents, October 1	3,018,144
Cash and cash equivalents, September 30	<u>\$ 3,709,558</u>
<b>Reconciliation of Operating Income to Net Cash Provided</b>	
<b>(Used) by Operating Activities:</b>	
Operating income (loss)	\$ 881,254
Adjustments to reconcile operating income to net cash provided (used)	
by operating activities:	
Depreciation expense	1,100,421
Decrease (increase) in accounts receivable	9,742
Decrease (increase) in other assets	4,943
Increase (decrease) in accounts payable	126,672
Increase (decrease) in other liabilities	(8,211)
Net cash provided by operating activities	<u>\$ 2,114,821</u>
<b>Non-cash capital activities:</b>	
Contributions of capital assets from the capital projects fund	<u>\$ 427,553</u>

The accompanying notes are an integral part of these financial statements.

CITY OF ANNA  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED SEPTEMBER 30, 2012

**NOTE A - SUMMARY OF ACCOUNTING POLICIES**

The City of Anna, Texas (the "City") is a Home Rule Charter city that operates under a Council-Manager form of government. The City provides the following services: public safety, ambulance, streets, sanitation, planning and zoning, and general administrative services. Other services include water, sewer, and sanitation operations.

The financial statements of the City of Anna are prepared in accordance with Generally Accepted Accounting Principles (GAAP). The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds and similar component units apply Financial Accounting Standards Board (FASB) pronouncements. The following is a summary of the more significant policies:

**1. The Reporting Entity**

The accompanying financial statements present all funds relevant to the operations of the City and its component units, entities for which the City is considered to be financially accountable. The component units presented are those of separately administered organizations that are controlled by or dependent on the City. Control or dependence is determined on the basis of budget adoption, taxing authority, funding, and appointment of the respective governing board.

Based on the criterion stated above, the Anna Community Development Corporation ("CDC") and the Anna Economic Development Corporation ("EDC") are component units of the City. The CDC and EDC are nonprofit organizations established to act on behalf of the City of Anna under the Development Corporation Act of 1979, section 4B and 4A, respectively. Each component unit is discretely presented in a separate column in the government wide financial statements to emphasis that it is legally separate from the City.

**2. Government-Wide and Fund Financial Statements**

The government-wide financial statements (i.e. the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component units. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate *component units* for which the City is financially accountable.

The statement of activities demonstrates the degree to which direct expenses of a given function or segment is offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes or other items not properly included among program revenues are reported instead as *general revenues*.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are required to be reported in separate columns in the fund financial statements.

### 3. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund financial statements. Revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue when all of the eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized when they become both measurable and available as net current assets. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Gross receipts and sales taxes are considered measurable when in the hands of intermediary collecting government and are recognized as revenue at that time. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include; (1) accumulated unpaid vacation, sick pay, and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which are recognized when due.

Proprietary funds distinguish operating revenues and expenses from *non-operating items*. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All revenues not meeting this definition are reported as non-operating revenues and expenses. All proprietary funds are accounted for using the *accrual basis of accounting*. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred. Unbilled utility services receivables related to water, wastewater, and sanitation services are recorded at year-end.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted funds first, then unrestricted resources as they are needed.

### 4. Fund Accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts, which are comprised of each fund's assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Government resources are allocated to and for individual funds based on the purposes for which they are to be spent and the means by which spending activities are controlled. The City, for financial purposes, includes all of the funds relevant to the operations of the City of Anna. Funds designated as "major" funds for the City each year are considered particularly important due to the level of activity in these funds. The General Fund is always considered a major fund for the City. For 2012, the Utility Fund is also a major fund. The various funds are grouped, in the financial statements in this report, into two fund categories as follows:

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### GOVERNMENTAL FUND TYPES

#### **General Fund**

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

#### **Debt Service Fund**

Accounts for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

#### **Capital Projects Fund**

Accounts for the acquisition and construction of governmental-type assets from expenditures of debt proceeds, capital grants, or other sources restricted for governmental type asset acquisition.

### PROPRIETARY FUND TYPES

#### **Utility Fund**

Accounts for operations (a) that are financed and operated in a manner similar to private business enterprises-where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. The Utility Fund accounts for the water, sewer, and sanitation services provided by the City.

#### 5. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. Other deposits with longer maturities are classified as investments.

#### 6. Capital Assets

Property, plant and equipment used in governmental fund type operations are shown on the statement of net assets, rather than governmental funds. These general fixed assets include land, buildings, park facilities, equipment, bridges, streets, and sidewalks.

All property, plant and equipment are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated property, plant and equipment are valued at their estimated fair value on the date donated. Depreciation is provided in the enterprise funds in amounts sufficient to relate the cost of the depreciable assets to operations over their estimated service lives on the straight-line basis.



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The service lives by type of asset are follows:

<u>Asset Category</u>	<u>Depreciable Life in Years</u>
Buildings	20
Water & Sewer System infrastructure	35
Equipment	3-20
Streets	20

### 7. Long Term Liabilities

Long-term liabilities expected to be financed from governmental fund types are shown on the statement of net assets, rather than governmental funds. Principal payments for this debt are expensed on the fund financial statement, but this expense is removed for the government-wide statement of activities.

### 8. Due To and From Funds

Outstanding balances between funds at the end of the fiscal year are referred to as either “due to/from other funds”. Any residual balances between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

### 9. Compensated Absences

It is the City’s policy to permit employees to accumulate earned but unused vacation and sick pay benefits. There is no liability for unpaid accumulated sick leave since the City will not pay any unused amounts when employees separate from service with the City. Vacation pay is accrued in the government-wide and proprietary financial statements.

### 10. Fund Balances

The City has adopted Governmental Accounting Standards Board (GASB) *Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions* (GASB 54). This Statement defines the different types of fund balances that a governmental entity must use for financial reporting purposes in the fund financial statements for governmental type funds. It does not apply for the government-wide financial statements or proprietary type funds.

GASB 54 requires the fund balance amounts to be properly reported within one of the following fund balance categories:

*Nonspendable* - such as fund balance associated with inventories, prepaids, long-term loans and notes receivable, and property held for resale (unless the proceeds are restricted, committed, or assigned).

*Restricted* - fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation,

*Committed* - fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors (the district’s highest level of decision-making authority),

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

*Assigned* - fund balance classification are intended to be used by the government for specific purposes but do not meet the criteria to be classified as restricted or committed, and

*Unassigned* - fund balance is the residual classification for the government's general fund and includes all spendable amounts not contained in the other classifications, and other funds that have total negative fund balances.

### 11. Budget and Budgetary Accounting

The official city budget is prepared for adoption for the Governmental Fund Type and the Proprietary Fund Type during the month of September.

### 12. Revenue Recognition – Property taxes

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on October 1 and are due and payable at that time. All unpaid taxes levied October 1 become delinquent February 1 of the following year. Property tax revenues are recognized when they become available. Available includes those property tax receivables expected to be collected within sixty days after year-end.

## NOTE B - CASH, CASH EQUIVALENTS, AND INVESTMENTS

As of September 30, 2012, the City maintains banking accounts at Texas Star Bank, Independent Bank, and the state-operated Texpool system. The City's investments are limited to demand deposits and certificates of deposits in financial institutions that are members of the FDIC.

At September 30, 2012, City's deposits held in its depository banks totaled \$6,547,739 with \$750,000 insured by the Federal Deposit Insurance Corporation. Securities have been pledged by the depository banks to collateralize 100% of all remaining deposits.

Summary of deposits with financial institutions:	
Primary government cash and cash equivalents	\$ 4,420,840
Primary government pooled investments	506,784
Restricted cash	1,621,415
Less: petty cash	<u>(1,300)</u>
Deposits with financial institutions	6,547,739
Add: petty cash	<u>1,300</u>
Total primary government cash and other deposits	<u>\$ 6,549,039</u>

The Texas State Comptroller of Public Accounts exercises oversight responsibility over TexPool (pooled investments). Oversight includes the ability to significantly influence operations, designations of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Standard and Poor's rates TexPool at AAA.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

To maintain the rating, weekly portfolio information must be submitted to Standard and Poor's and the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than the market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares.

The City's pooled investments at September 30, 2012, are comprised of governmental investment pools in the Texas Local Government Investment Pool (TexPool) as follows:

	Carrying Amount & Fair Value
<u>Public fund investment pools:</u>	
TexPool General Account	\$ 204,359
TexPool Building Fund	38,827
TexPool I & S Account	123,413
TexPool Sewer Capital Improvement Fund	140,185
Total public funds investment pools:	<u>\$ 506,784</u>

### *Custodial credit risk*

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City's investment policy requires collateralization of certificates of deposit or demand deposits, to be held by an independent safekeeping agent. The safekeeping bank may not be within the same holding company as the banks from which the securities are pledged. City deposits over and above amounts insured by the Federal Deposit Insurance Corporation (FDIC) are collateralized by securities held by the City's safekeeping agent.

### *Interest rate risk*

Through its investment policy, the City manages its exposure to fair value losses arising from increasing interest rates by limiting the duration of investments within its investment portfolio to a maturity period no greater than three years for the Debt Service Fund, no greater than the final expenditure date for bond proceeds held in a Capital Projects Fund, and no greater than 270 days for all other funds.

### *Credit risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. According to the City's investment policy, to mitigate credit risk, funds shall be invested in the following types of investments: 1) state or local investment pools 2) direct obligations of the U.S. government 3) bonds with maturities less than two years and guaranteed by the U.S. government 4) certificates of deposits with maturities less than two years 5) repurchase agreements collateralized with U.S. treasury securities with terms less than 90 days 6) SEC registered, AM-rated money market mutual funds with a dollar-weighted average portfolio maturity of 90 days or less, and 7) fixed rate or discount notes with a maturity of two years or less pledged or otherwise guaranteed by any of the following federal agencies: Federal National Mortgage Association, Federal Home Loan Bank, Federal Farm Credit Bank, Student Loan Marketing Association, and the Federal Home Loan Mortgage Corporation.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Concentration of credit risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. The City investment policy requires investment funds to be fully collateralized.

## NOTE C – PROPERTY TAX REVENUE

Property and personal taxes are billed and collected by the Collin County Tax Assessor/Collector. The total property tax levy for the 2011/2012 tax year is \$2,346,442. At September 30, 2012, \$2,314,801 of the tax has been collected, which is 98.65%.

Ad valorem taxes are levied from valuations assessed as of January 1 and recognized as revenue on the date of the levy on October 1. Property tax receivables are recognized when the City has an enforceable claim against the property owner. In the governmental funds, property tax revenue is recognized in the fiscal period for which the taxes are levied, provided that they become available.

Available means collected within the current period, or expected to be collected soon enough thereafter, to be used to pay current liabilities. The City's availability period is sixty days. Taxes collected prior to the levy date to which they apply are recorded as deferred revenues and recognized as revenue of the period to which they apply.

Current taxes are levied by October 1 and become delinquent if unpaid on February 1. Taxes unpaid as of February 1 are subject to penalty and interest as the City Council provides by ordinance. The penalty is 6% for the first month, and increased 1% per month up to a 12% maximum. Under state law, property taxes levied on real property constitutes a lien on the real property which cannot be forgiven without specific approval of the state legislature.

## NOTE D - RECEIVABLES

Receivables at September 30, 2012, consisted of the following:

	Primary Government			Component Units	
	General Fund	Debt Service Fund	Proprietary Fund	Economic Development Corporation	Community Development Corporation
Property tax	\$ 61,089	\$ 9,934	\$ -	\$ -	\$ -
Sales tax	93,450	-	-	46,725	46,725
Franchise tax and other	81,338	-	-	-	-
Court fines	360,826	-	-	-	-
Loans (long-term)	-	-	-	-	99,900
Utility bills	-	-	471,875	-	-
Gross receivables	596,703	9,934	471,875	46,725	146,625
Less: Allowance for uncollectibles	(340,355)	-	(56,726)	-	-
Net receivables	\$ 256,348	\$ 9,934	\$ 415,149	\$ 46,725	\$ 146,625

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE E – CAPITAL ASSETS

#### GOVERNMENTAL FUND TYPE ACTIVITIES

Governmental fund type capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land	\$ 1,258,437	\$ -	\$ -	\$ 1,258,437
Construction in progress	45,959	86,768	(45,959)	86,768
Depreciable assets:				
Park improvements	2,850,373	20,000	45,959	2,916,332
Buildings	993,551	15,138	-	1,008,689
Furniture and fixtures	103,101	62,886	-	165,987
Streets and drainage	14,392,162	128,019	-	14,520,181
Machinery and equipment	2,026,382	69,557	(37,284)	2,058,655
Totals at historical cost	21,669,965	382,368	(37,284)	22,015,049
Less: Accumulated depreciation	(5,643,471)	(1,112,069)	37,284	(6,718,256)
Governmental fund type capital assets, net	\$ 16,026,494	\$ (729,701)	\$ -	\$ 15,296,793

#### PROPRIETARY FUND TYPE ACTIVITIES

Proprietary fund type capital asset activity for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements, Transfers, and Reclassifications	Ending Balance
Nondepreciable assets:				
Land and easements	\$ 350,793	\$ 12,120	\$ -	\$ 362,913
Construction in progress	92,285	415,434	-	507,719
Depreciable assets:				
Furniture	5,620	-	-	5,620
Buildings and improvements	486,244	-	-	486,244
Equipment	592,321	182,391	-	774,712
Water treatment system	6,856,136	-	(861,471)	5,994,665
GTUA water improvements	-	-	16,851,929	16,851,929
GTUA sewer improvements	-	-	939,796	939,796
Water and sewer system	28,783,857	42,029	(16,937,353)	11,888,533
Totals at historical cost	37,167,256	651,974	(7,099)	37,812,131
Less: Accumulated depreciation	(5,932,873)	(1,100,421)	-	(7,033,294)
Proprietary fund type activities capital assets, net	\$ 31,234,384	\$ (448,447)	\$ (7,099)	\$ 30,778,837

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Component units capital asset activities for the year ended September 30, 2012 was as follows:

	Beginning Balance	Additions	Retirements	Ending Balance
EDC component unit:				
Nondepreciable assets:				
Land	\$ 459,176	\$ 46,914	\$ -	\$ 506,090
Depreciable assets:				
Building	-	366,589	-	366,589
Totals at historical cost	459,176	413,503	-	872,679
Less: Accumulated depreciation	-	(1,527)	-	(1,527)
EDC capital assets, net	\$ 459,176	\$ 411,976	\$ -	\$ 871,152

Depreciation for general fixed assets is included as an expense for governmental activities on the statement of activities. Depreciation for proprietary type funds are included in both the fund financial statements and on the statement of activities.

Depreciation expense was charged to functions/programs of the primary government as follows:

### *Governmental activities:*

Streets	\$ 719,608
Parks	174,024
Police	107,462
General government	58,477
Fire	50,929
Inspections	1,569
Total depreciation expense - governmental activities	<u>\$ 1,112,069</u>

### *Business-type activities:*

Water and sewer	<u>\$ 1,100,421</u>
Total depreciation expense - business-type activities	<u>\$ 1,100,421</u>

## NOTE F - LONG-TERM DEBT

The City has outstanding general obligation bonds, revenue bonds, notes payable, capital leases, and certificates of obligation for the acquisition of capital assets and the construction of major capital facilities.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

The following is a schedule of future debt service requirements to maturity:

Fiscal Year Ended	Total		Governmental Activities		Business-Type Activities	
	Principal	Interest	Principal	Interest	Principal	Interest
2013	\$ 735,710	\$ 1,031,446	\$ 289,431	\$ 184,767	\$ 446,279	\$ 846,679
2014	816,112	1,021,635	270,115	173,866	545,996	847,769
2015	1,233,000	998,604	273,000	162,642	960,000	835,962
2016	1,282,750	965,310	289,000	151,382	993,750	813,928
2017	1,276,500	943,062	249,000	185,125	1,027,500	757,937
2018-2022	6,537,250	5,550,043	1,346,000	1,181,350	5,191,250	4,368,693
2023-2027	7,360,750	3,032,491	1,682,000	518,278	5,678,750	2,514,213
2028-2032	2,700,000	937,900	130,000	22,501	2,570,000	915,399
2033-2037	1,168,750	358,104	-	-	1,168,750	358,104
2038-2042	590,000	70,106	-	-	590,000	70,106
	<u>\$ 23,700,820</u>	<u>\$ 14,908,701</u>	<u>\$ 4,528,545</u>	<u>\$ 2,579,911</u>	<u>\$ 19,172,275</u>	<u>\$ 12,328,790</u>

The following is a summary of the terms of the City's long-term debt at September 30, 2012:

### *Governmental Activities:*

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2012	Due Within One Year
2005 Combination Tax and Limited Surplus Revenue Certificates of Obligation	\$ 2,480,000	2005	2/15/2026	3.5%-5.25%	\$ 1,975,000	\$ 110,000
2007 Certificate of Obligation	1,420,000	2007	2/15/2027	3.95% to 15%	1,055,000	85,000
2007 Revenue Bond	370,000	2007	2/15/2027	3.95% to 15%	270,000	20,000
Capital lease for Groundmaster	70,758	2010	2013	5.38%	19,905	19,905
2011 Tax Revenue Certificates of Obligation	360,000	2011	2/15/2026	3.34%	360,000	8,000
2009 Tax and Revenue Certificate of Obligation	900,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	825,000	35,000
Fire rescue truck note	55,000	2009	2/3/2014	5.00%	23,641	11,526
Compensated absences					105,878	105,878
Total Governmental Activities					<u>\$ 4,634,424</u>	<u>\$ 395,309</u>

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### *Business-Type Activities:*

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2012	Due Within One Year
1976 Junior Lien Waterworks and Sewer System Revenue Bonds	\$ 95,000	1976	9/30/2014	5%	\$ 10,000	\$ 5,000
1976 General Obligation Water Bonds	100,000	1976	9/30/2016	5%	20,000	5,000
2005 GTUA contract	2,885,000	2005	5/1/2028	4.42%	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	2,125,000	2006	6/1/2026	2.95%-3.75%	1,640,000	90,000
Series 2007 GTUA contract revenue bonds	760,000	2007	5/1/2027	3.07%-5.57%	650,000	30,000
2007 GTUA contract	1,105,000	2007	5/1/2027	3.07%-5.57%	960,000	45,000
2007 GTUA contract	2,325,000	2007	6/1/2028	2.95%-4.1%	1,995,000	90,000
2007 GTUA contract	3,365,000	2007	5/1/2032	3.07%-5.62%	3,260,000	50,000
2008 GTUA contract	540,000	2008	9/30/2027	2.29%-5.74%	460,000	20,000
CGMA Pipeline Project Phase I	700,000	2008	10/1/2028	2.29%-5.74%	560,000	22,500
CGMA Pipeline Project Phase II	2,168,750	2008	9/30/2040	5.68%-5.83	2,168,750	-
CGMA Pipeline Project Phase III	1,250,000	2008	10/1/2036	2.67%-5.62%	1,150,000	45,000
2009 combination tax and revenue refunding bond	4,165,000	2009	2/15/2026	4.28% (to 15% on 02/15/2018)	4,090,000	25,000
Backhoe note	87,344	2009	2/2/2014	5%	28,525	18,779
Compensated absences					22,024	22,024
Total Business-Type Activities					19,194,299	468,303
Total general debt (Governmental Type and Business-Type Activities)					\$ 23,828,723	\$ 863,612

### *Community Development Corporation (CDC)*

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2012	Due Within One Year
Sales Tax Revenue Refunding Bonds- Series 2012A	\$ 396,000	2012	2/15/2018		\$ 396,000	\$ 63,000
Sales Tax Revenue Bonds- Series 2012B	\$ 1,655,000	2012	2032		1,655,000	15,000
Total debt : Community Development Corporation					\$ 2,051,000	\$ 78,000

### *Economic Development Corporation (EDC)*

Purpose	Original Amount	Year of Issue	Final Maturity	Interest Rate	Balance September 30, 2012	Due Within One Year
Note payable	\$ 335,000	2012	11/14/2021	4.465%	\$ 312,427	\$ 28,217
Note payable	\$ 410,400	2008	2018	5%	279,754	35,231
Total debt : Economic Development Corporation					\$ 592,181	\$ 63,448



## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

Long-term debt activity for the year ended September 30, 2012 is as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental activities:					
2005 Combination Tax and Limited Surplus					
Revenue Certificates of Obligation	\$ 2,080,000	\$ -	\$ (105,000)	\$ 1,975,000	\$ 110,000
2007 Certificate of Obligation	1,135,000	-	(80,000)	1,055,000	85,000
2007 Revenue Bond	290,000	-	(20,000)	270,000	20,000
2011 Tax Revenue Certificates of Obligation	360,000	-	-	360,000	8,000
Capital lease for fire truck	21,651	-	(21,651)	-	-
Capital lease for Groundmaster	37,404	-	(17,500)	19,904	19,904
Fire truck note	24,495	-	(24,495)	-	-
2009 Tax and Revenue Certificate of Obligation	860,000	-	(35,000)	825,000	35,000
Fire rescue truck note	34,616	-	(10,974)	23,642	11,527
Police car #8 note	13,294	-	(13,294)	-	-
Other liabilities	87,885	17,993	-	105,878	105,878
Total Governmental activity long term liabilities	\$ 4,944,345	\$ 17,993	\$ (327,914)	\$ 4,634,424	\$ 395,309
Business activities:					
1976 Junior Lien Waterworks and Sewer System					
Revenue Bonds	\$ 15,000	\$ -	\$ (5,000)	\$ 10,000	\$ 5,000
1976 General Obligation Water Bonds	24,500	-	(4,500)	20,000	5,000
2005 GTUA contract	2,180,000	-	-	2,180,000	-
Series 2006 GTUA contract revenue bonds (12&15)	1,730,000	-	(90,000)	1,640,000	90,000
Series 2007 GTUA contract revenue bonds	680,000	-	(30,000)	650,000	30,000
2007 GTUA contract	1,000,000	-	(40,000)	960,000	45,000
2007 GTUA contract	2,080,000	-	(85,000)	1,995,000	90,000
2007 GTUA contract	3,285,000	-	(25,000)	3,260,000	50,000
2008 GTUA contract	480,000	-	(20,000)	460,000	20,000
CGMA Pipeline Project Phase I	581,250	-	(21,250)	560,000	22,500
CGMA Pipeline Project Phase II	2,168,750	-	-	2,168,750	-
CGMA Pipeline Project Phase III	1,191,250	-	(41,250)	1,150,000	45,000
2009 combination tax and revenue refunding bond	4,115,000	-	(25,000)	4,090,000	25,000
Backhoe note	46,382	-	(17,857)	28,525	18,779
Other liabilities	18,291	3,733	-	22,024	22,024
Totals	\$ 19,595,423	\$ 3,733	\$ (404,857)	\$ 19,194,299	\$ 468,303

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### Component Units Debt

<i>Community Development Corporation (CDC)</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FY08 Bank note payable - Fed fixed rate plus 3% a.p.r. - Matures 2018 - Original amount was \$629,000	\$ 438,214	\$ -	\$ (438,214)	\$ -	\$ -
Sales Tax Revenue Refunding Bonds- Series 2012A	-	396,000	-	396,000	63,000
Sales Tax Revenue Bonds- Series 2012B	-	1,655,000	-	1,655,000	15,000
CDC Totals:	\$ 438,214	\$ 2,051,000	\$ (438,214)	\$ 2,051,000	\$ 78,000

  

<i>Economic Development Corporation (EDC)</i>	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
FY08 Bank note payable - 5% a.p.r. - Matures 2019 - Original amount was \$380,300	\$ 313,230	\$ -	\$ (33,476)	\$ 279,754	\$ 35,231
FY12 Bank note payable - 4.465% a.p.r. - Matures 11/14/2021 - Original issue - \$335,000	-	335,000	(22,573)	312,427	28,217
EDC Totals:	\$ 313,230	\$ 335,000	\$ (56,049)	\$ 592,181	\$ 63,448

### ***CONTRACTUAL OBLIGATIONS WITH GREATER TEXOMA UTILITY AUTHORITY***

Under the terms of long term water supply and sewer service contracts between the City and Greater Texoma Utility Authority (GTUA), the city recognizes that GTUA has an undivided ownership interest in the City's water system and sewer collection and treatment facility equivalent to the percentage of the total cost of the facility provided by GTUA through the issuance of GTUA bonds.

The City has a contractual obligation to make payments specified by the contract to GTUA to pay the principal and interest on the bonds, maintain a Reserve Fund for the security and payment of bonds similarly secured, pay the administrative and overhead expenses of GTUA directly attributable to the bonds, and pay any extraordinary expenses incurred by GTUA in connection with the bonds. Under terms of the contracts the City's obligation to make payments to GTUA, as well as GTUA's ownership interest in the facilities terminates, when all of GTUA's bonds issued in connection with construction of the facilities have been paid in full, are retired, and are no longer outstanding.

### Collin Grayson Municipal Alliance Transmission Water Pipeline

In 2004, the City, along with the City of Van Alstyne, Howe, and Melissa, formed a group called the Collin Grayson Municipal Alliance ("CGMA"). CGMA entered into a long-term contractual obligation with GTUA for the purpose of providing funds for the construction of a transmission water pipeline that will provide water to CGMA cities. The cost of the pipeline is being funded in four phases.

Each CMGA city was required to make payments to GTUA in an amount equivalent to 25% of the total obligation to cover their portion of the cost of the obligation until the pipeline project was completed. As water continues to flow to each CGMA city, the City shall be charged it's percentage or fraction share of debt service on the obligation based upon: the amount of water to be paid by the City under its water

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

contract (i.e. the greater of its minimum take-or-pay amount or the actual amount of water taken) divided by the total amount of water to be paid by all CGMA cities. The sum of the four (4) fractional amounts shall always equal 100% of the debt service on the contractual obligation with GTUA. The billing rates for each City will be calculated to provide funds necessary to cover the contractual obligation, interest, repairs, maintenance, and production costs.

At the end of the contractual obligation with GTUA, the City will own an undivided interest in the transmission water pipeline based on the percentage of water it utilized and paid for during the contract term. The contract will expire and the transfer of ownership will occur during the fiscal year ended September 30, 2040, as long as no new debt is issued.

### *CDC Series 2012A Sales Tax Revenue Refunding Bonds*

On August 23, 2012, Series 2012A Sales Tax Revenue Refunding Bonds were obtained by the CDC in the amount of \$396,000. \$377,983 of the proceeds from the sale of the bonds were used to refund the CDC's outstanding Texas Leverage Fund Loan in order to restructure such indebtedness. The issuance's net present value has the CDC incurring \$3,382 of additional costs after paying all issuance and other costs on the Bonds. The refunded loan and interest due thereon, are to be paid from funds deposited with the Escrow Agent. The entire refunded loan principal was redeemed on August 23, 2012. Debt service for the sales tax revenue bonds will be funded from the pledge of net revenue to be received from the State of Texas sales taxes received by the CDC.

### *CDC Series 2012B Sales Tax Revenue Bonds*

On August 23, 2012, Series 2012B Sales Tax Revenue Bonds were obtained by the CDC in the amount of \$1,655,000. Proceeds from the sale of the bonds are to be used for City of Anna parks and other open space improvements. Debt service for the sales tax revenue bonds will be funded from the pledge of net revenue to be received from the State of Texas sales taxes received by the CDC.

## NOTE G – LEASES

The City has entered into capital lease agreements for the purchase of vehicles and equipment. The following is a schedule of the future minimum lease payments:

<u>Year Ending</u> <u>September 30,</u> <u>2013</u>	<u>Groundmaster</u>
	<u>\$ 21,925</u>
Future minimum lease payments	21,925
Less: amount representing interest	(1,500)
Present value of minimum lease payments	<u>\$ 20,425</u>
 Cost of equipment	 \$ 70,758

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE H – FUND BALANCES AND RESTRICTED NET ASSETS

#### Governmental-Type Fund Balances

The City authorized the City Administrator to designate certain fund balances as assigned. Excluding unassigned fund balances, the following describes the City's fund balance classifications at September 30, 2012:

#### *Restricted Fund Balances*

All fund balances for the Capital Projects and Debt Service funds are restricted for the intended purpose of these funds. Restricted Fund Balances of \$356,686 for the General Fund represents assets restricted by law or by agreements with third parties.

The following describes the various fund balance restrictions for the General Fund:

Impact fees for park improvements	\$ 246,478
Eastside Park improvements	29,095
Fire Department improvements	22,931
State Seizure funds held in trust	15,882
Impact fees for street improvements	15,031
Child safety programs	9,808
Municipal court building security	9,574
Court bond funds held in trust	5,452
Municipal court technology	1,556
Sweetwater Crossing funds held in trust	862
Law enforcement officer training fund	17
	<hr/>
	\$ 356,686

#### *Committed Fund Balances*

The City Council has committed \$110,894 of fund balance for 2013 revenue stabilization in the event of budget shortfalls. This contingency amount must be expended in accordance with Section 7.08 of the Anna City Charter.

#### Proprietary Fund Net Assets

Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the City or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. At September 30, 2012, the City's proprietary fund net assets were restricted for the following purposes:

- The Utility Fund has restricted deposits held in trust by GTUA in the amount of \$2,048,323 that will be used for water and sewer system capital improvements and repayment of contractual obligations.
- The Utility Fund has restricted net assets in the form of cash deposits and pooled investments totaling \$1,761,600 that will be used for water and sewer system capital improvements and debt service related to such improvements.

## NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

### NOTE I – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

Interfund balances at September 30, 2012 are as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General	Water and Sewer	\$ 202,080
Water and sewer	Capital Projects	17,999
Net internal balances:		\$ 184,081

### NOTE J – RISK MANAGEMENT

The City is exposed to various risks of loss related to litigation, theft, property damage, errors and omissions, injuries, and natural disasters. The City's insurance is by membership in the Texas Municipal League, a public entity risk pool operated by the Texas Municipal League Board for the benefit of governmental units in Texas. Insurance in effect at September 30, 2012 is summarized as follows: Workers compensation, general liability, automobile liability, personal property, law enforcement liability, and errors and omissions. There were no significant reductions in insurance coverage from the prior year. Settled claims for risks have not exceeded insurance coverage for the past four years.

### NOTE K – SUBSEQUENT EVENTS

Subsequent events have been evaluated through the date of issuance which is the date of the auditor's report, and there is one subsequent event to disclose as follows:

#### *Issuance of Series 2012, \$4,210,000 Combination Tax and Revenue Certificates of Obligation*

Dated December 20, 2012, these certificates of obligation were issued to fund water and sewer system improvements. This issuance will increase the required debt service for the City's Utility Fund as follows:

Fiscal Year Ending	Totals	
	Principal	Interest
2014	\$ -	\$ 167,096
2015	80,000	100,500
2016	80,000	99,300
2017	80,000	97,900
2018	80,000	96,300
2019-2023	445,000	455,513
2024-2028	1,130,000	384,125
2029-2033	2,315,000	148,312
	<u>\$ 4,210,000</u>	<u>\$ 1,549,046</u>

## REQUIRED SUPPLEMENTARY INFORMATION

**City of Anna, Texas**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Budget and Actual - General Fund**  
**For the Year Ended September 30, 2012**

	Original Budget	Amended Budget	Actual Amounts	Variance with Amended Budget - Positive (Negative)
Revenues				
Taxes:				
Property	\$ 2,030,335	\$ 2,030,335	\$ 2,058,963	\$ 28,628
Sales	460,000	494,000	522,840	28,840
Franchise	335,000	335,000	363,970	28,970
Building permits	81,000	350,000	493,692	143,692
Developer and impact fees	-	-	204,580	204,580
Intergovernmental	93,600	93,600	126,900	33,300
Court	137,975	91,800	98,446	6,646
Fire	82,500	57,000	50,935	(6,065)
Other development fees	41,500	43,051	45,634	2,583
Other revenue	36,968	36,968	26,844	(10,124)
Investment earnings	20,330	20,330	22,799	2,469
Police	15,800	37,300	21,604	(15,696)
Grants	25,000	20,657	14,918	(5,739)
Parks	3,000	3,000	10,295	7,295
Total revenues	3,363,008	3,613,041	4,062,420	449,379
Expenditures				
Current:				
Police	1,167,183	1,192,325	1,165,543	26,782
Administrative and general	811,351	862,652	848,949	13,703
Development and animal control	362,252	430,367	529,080	(98,713)
Fire	387,198	427,398	388,871	38,527
Streets	159,500	156,565	163,518	(6,953)
Parks	111,215	111,150	116,883	(5,733)
Ambulance	102,793	117,800	114,782	3,018
Court	89,168	89,168	82,055	7,113
Capital outlays:	174,600	284,683	273,255	11,428
Debt service:				
Principal retirement	64,294	63,131	45,632	17,499
Interest expense	3,156	4,319	21,737	(17,418)
Total expenditures	3,432,710	3,739,558	3,750,305	(10,747)
Excess of revenues over (under) expenditures	(69,702)	(126,517)	312,115	438,632
Other financing sources (uses)				
Insurance proceeds	-	-	8,678	8,678
Transfers in (out)	-	-	18,968	18,968
Total other financing sources(uses)	-	-	27,646	27,646
Net changes in fund balance	(69,702)	(126,517)	339,761	466,278
Fund balance - beginning	2,306,489	2,306,489	2,306,489	
Fund balances - ending	\$ 2,236,787	\$ 2,179,972	\$ 2,646,250	

See independent auditor's report.

**CITY OF ANNA, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012**

**RETIREMENT SYSTEM – PENSION FUNDING DATA**

The City provides pension benefits for all of its full-time employees through a nontraditional, joint contributory, hybrid defined benefit plan in the statewide, Texas Municipal Retirement System (TMRS), an agent multiple-employer public employee retirement system. TMRS issues stand-alone financial reports annually and these can be obtained by request at the following address: TMRS, P.O. Box 149153, Austin, Texas 78714-9153.

Benefits depend upon the sum of the employee's contributions to the plan, with interest, and the City-financed monetary credits, with interest. At the date the plan began the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are a percent (100%, 150% or 200%) of the employee's accumulated contributions. In addition the City can grant as often as annually another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employer's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and City matching percent had always been in existence and if the employee's salary had always been the average of his/her salary in the last three years that are one year before the effective date. At retirement, the benefit is calculated as if the sum of the employee's accumulated contributions with interest and the employer-financed monetary credits with interest were used to purchase an annuity. The plan provisions are adopted by the governing body of the City within options available in the statutes governing TMRS and within the actuarial constraints also in the statutes. Plan provisions for the City were as follows:

Deposit Rate:	7%
Matching Ratio (City to Employee):	2 to 1
Member Vested After:	5 years of service
Retirement Eligibility:	Minimum age 60 with 5 years of service Any age with 20 years of service

Contributions

Under the state law governing TMRS, the actuary annually determines the City contribution rate. This rate consists of the normal cost contribution rate and the prior service cost contribution rate, both of which are calculated to be a level percent of payroll from year to year. The normal cost contribution rate finances the currently accruing monetary credits due to the City matching percent, which are the obligation of the City as of an employee's retirement date, not at the time the employee's contributions are made. The normal cost contribution rate is the actuarially determined percent of payroll necessary to satisfy the obligation of the City to each employee at the time his/her retirement becomes effective. The prior service contribution rate amortizes the unfunded (overfunded) actuarial liability (asset) over the remainder of the plan's 25-year amortization period. The unit credit actuarial cost method is used for determining the City contribution rate. Both the employees and the City make contributions monthly. Since the City needs to know its contribution rate in advance for budgetary purposes, there is a one-year delay between the actuarial valuation that serves as the basis for the rate and the calendar year when the rate goes into effect. (i.e. December 31, 2011 valuation is effective for rates beginning January 1, 2012).



**CITY OF ANNA, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012**

**RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)**

Funding Status and Progress

Even though the substance of the City's plan is not to provide a defined benefit in some form, additional disclosure is appropriate due to the nontraditional nature of the defined contribution plan which had an initial unfunded pension benefit obligation to the monetary credits granted by the City for services rendered before the plan began and which can have additions to the unfunded pension benefit obligation through the periodic adoption of increases in benefit credits and benefits. Statement No. 5 of the Governmental Accounting Standards Board (GASB 5) defines pension benefit obligation as a standardized disclosure measure of the actuarial present value of pension benefits, adjusted for the effects of projected salary increases, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of public employee pension plans, assess programs made in accumulating sufficient assets to pay benefits when due and make comparisons among public employee pension plans.

The pension benefit obligation shown below is similar in nature to the standardized disclosure measure required by GASB 5 for defined benefit plans except that there is no need to project salary increases since the benefit credits earned for service to date are not dependent upon future salaries. The calculations were made as part of the actuarial valuation as of December 31, 2011.

**Schedule of Actuarial Liabilities and Funding Progress (in thousands)**

Actuarial Valuation Date	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Value of Assets	\$ 1,808	\$ 1,362	\$ 908	\$ 622	\$ 407
Accrued Liability	2,921	2,557	1,829	1,467	1,029
(Unfunded) Accrued Liability	\$ (1,113)	\$ (1,195)	\$ (921)	\$ (845)	\$ (622)
Percentage Funded	61.9%	53.3%	49.6%	42.4%	39.6%
Annual Covered Payroll	\$ 2,124	\$ 1,982	\$ 1,655	\$ 1,607	\$ 1,283
Ratio of Unfunded to Annual Covered Payroll	52.4%	60.3%	55.6%	52.6%	48.5%
Financial Year Ended September 30,	2012	2011	2010	2009	2008
Contributions Made	\$ 234	\$ 247	\$ 203	\$ 156	\$ 129

**CITY OF ANNA, TEXAS  
REQUIRED SUPPLEMENTARY INFORMATION  
SEPTEMBER 30, 2012**

**RETIREMENT SYSTEM – PENSION FUNDING DATA (continued)**

Actuarial Information (December 31, 2011)

Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Percent of Payroll
Remaining Amortization Period	28.2 Years – Closed Period
Amortization Period for new gains and losses	30 years
Asset Valuation Method	10-year smoothed market
Investment Rate of Return	7.5%
Projected Salary Increase	Varies by Age and Service
Includes Inflation At	3.0%
Cost-of-Living-Adjustments	2.1%
City-specific Assumptions:	
Payroll growth assumption	3.0%

Supplemental Death Benefits Fund (SDBF)

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the years 2012, 2011, 2010, 2009, and 2008 were \$2,454, \$2,807, \$2,814, \$2,571, and \$2,052 respectively, which equaled the required contributions each year.

## COMPLIANCE AND INTERNAL CONTROLS SECTION



REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING  
STANDARDS*

March 26, 2013

To the City Council of the  
City of Anna, Texas

We have audited the financial statements of the City of Anna, Texas (the “City”) as of and for the year ended September 30, 2012, and have issued our report thereon dated March 26, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified a deficiency in internal control over financial reporting that we consider to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

### Preparation of Financial Statements

The City does not prepare its own full-disclosure financial statements as required by generally accepted accounting principles. This could impact the City's ability to report financial data reliably such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected.

Management's Response: Management agrees with auditor's comments and the City will continue to annually weigh the benefit of preparing its own full-disclosure financial statements versus the cost of doing so.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the City Council, others within the entity, and appropriate state and federal agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*LaFollett and Company PLLC*

Tom Bean, Texas  
March 26, 2013